MANUFACTURERS HANOVER

Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

A Murky Employment Picture

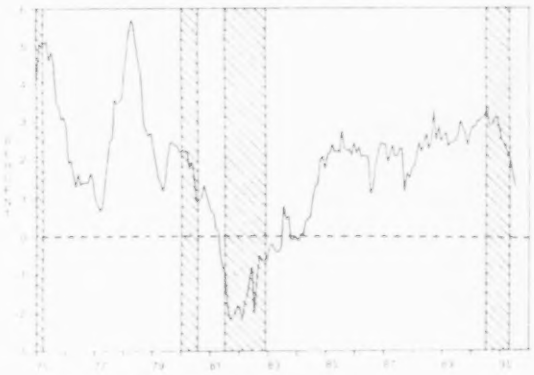
While the likelihood of a strong business rebound from the nation's ninth postwar recession is questionable at best, the decline in nonfarm payroll employment in June and July is being viewed by the more pessimistic pundits of economic trends as a harbinger of a double-dip recession—in other words, two distinct periods of economic contraction interrupted by last spring's flurry of business activity. Even the Federal Reserve deemed it necessary to respond to the threat, loosening the credit reins in early August and reducing the Federal funds rate to 5½ percent, its lowest level in 14 years.

However, notwithstanding the disappointing job numbers of recent months, their impact on the sustainability of this business recovery should not be exaggerated. Mixed economic statistics are typical at this stage of the business cycle, employment setbacks have occurred during the earliest phases of past recoveries and some longer-term impediments currently stand in the way of a quick return to healthy labor market conditions. What is more, numerous other indicators point in the recovery direction.

To be sure, the employment picture remains murky. According to the Labor Department, nonfarm payroll jobs fell by 51,000 last month, continuing a decline which began in June, and marking the twelfth time in the past 13 months in which payroll employment has eased. Employment declines were widespread, affecting both the goods-producing industries, especially construction, as well as service-producing jobs, notably government payrolls. And, while the unemployment rate dipped slightly in July, this was hardly cause for too much optimism. The decline in the jobless rate was heavily influenced by the fact that a sizable number of unemployed women gave up looking for work, and thus dropped out of the labor force, rather than found new jobs.

It would be premature, however, to conclude that these developments mark the death-knell of the current recovery. For one thing, today's weakness in the labor market is not particularly unusual when viewed in cyclical perspective. Although employment increases often coincide with the initial stages of recovery, especially in service industries, they don't always. In fact, in the relatively recent past, the exceptions have become the rule, and payroll employment has tended to trail slightly the turning point in the business cycle. Monthly payroll declines were posted after the trough of both the 1973-75 and

12-MONTH PERCENT CHANGE IN STATE AND LOCAL GOVERNMENT EMPLOYMENT



Source: Bureau of Labor Statistics

1981-82 recessions; in each instance, about three months elapsed before a sustained upturn in the payroll numbers occurred. While the drop in payroll employment in two of the past three months is disappointing, it is not unusual.

Longer-Run Clouds

For another, past performance may not be much of a guide to payroll trends this time around. Several longer-term influences seem to be at work impeding the recovery of the labor market. The most obvious of these is the trend toward corporate downsizing. In sharp contrast with the growth-oriented 1980s, the 1990s have given way to a period of retrenchment. Throughout corporate America, rigorous cost controls are being put into place, and trimming the number of employees is one of the quickest methods of achieving savings objectives. According to a recent survey conducted by the American Management Association, corporate downsizing ran at a record pace during the past year, with 56 percent of the 910 companies questioned reporting job cuts. Not surprisingly, the axe fell the hardest on middle managers, retailing was a particularly hard-hit industry, and New England fared the worst regionally. Nor is the outlook much better. A large chunk of surveyed firms anticipate additional cuts to come.

Manufacturers Hanover Economics Department 17/270

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The private sector is not the only one paying penance for its sometimes bloated growth in the 1980s. So, too, is the public sector, especially in the state and municipal areas. With numerous state and local governments facing a severe financial squeeze, public employee layoffs are becoming commonplace. During the first seven months of this year, for example, 23 states have trimmed their payrolls, with the biggest job cuts occurring in New York. As shown in the chart, this trend has already sliced the growth rate of state and local government employment sharply compared with the period immediately preceding the recession, and is also having a disproportionately large impact on the monthly employment numbers. Although state and local government jobs comprise some 14 percent of total payroll jobs, public employee layoffs have accounted for nearly one-third of the 72,000 jobs lost in June and July.

Public and private sector downsizing has spawned the growing use of either temporary, or part-time help. Both decidedly lower the employer cost of labor—in the former instance the cost of benefits and, in the latter, direct compensation costs. Demand for temporary help is especially robust in the health-care and technical fields, as is that for people with clerical

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/7/91)	188,443	+ 540	- 25,096
New York City (8/14/91)	31,754	- 531	- 7,874
Commercial Paper (8/14/91)	533,376	- 3,798	- 6,222

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/7/91)	301,981	- 1,628	- 18,001
New York City (8/14/91)	53,646	- 247	- 5,817

Total Loans and Leases Gross Adjust

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (8/7/91)	1,021,880	- 2,704	- 1,358
New York City (8/14/91)	169,815	- 1,616	- 21,364

Financial Markets

	Friday 8/23/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.53%	+ .15	- 2.10
180-Day Bills†	5.69	+ .17	- 1.97
Longest Bills†	5.81	+ .19	- 1.86
Recent Issues:			
6⅞s 7/31/93	6.40	+ .12	
7⅞s 7/31/96	7.35	+ .05	
7⅞s 8/15/01	7.87	+ .04	
8⅛s 8/15/21	8.13	+ .04	
Municipals:			
Bond Buyer—20 Bond Index* (8/22/91)	6.86%	- .02	- .36
Blue List Total ($ Million)	$1,384	+ $410	+ $244
30-Day Visible Supply ($ Million)	$1,552	- $607	- $247
Total	$2,936	- $197	- $ 3
Corporates:			
Moody's Aa Composite (8/22/91)	8.92%	- .02	- .64
30-Day Visible Supply ($ Million)	$ 655	- $190	- $495
Stocks:			
Dow-Jones Averages:			
Industrials	3,040.25	+ 72.23	+324.66
Transportation	1,215.44	+ 25.03	+240.62
Utilities	206.00	+ 3.26	+ 2.91
65 Stocks	1,080.56	+ 23.49	+131.67
N.Y.S.E. Composite Index	215.75	+ 4.13	+ 31.60
N.Y.S.E. Avg. Daily Vol. for Week (000's)	201,340	+ 18,194	+ 8,377

*34% Taxable equivalent 10.39%

† Bond equivalent

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 8/23/91	Week Ago
Overnight	5.56%	5.63%
1 month	5.63	5.63
3 month	5.63	5.63
6 month	5.81	5.75
1 year	6.00	6.00

FOREIGN EXCHANGE SPOT RATES

New York Opening (8/23/91)	Currency Per U.S. $	Week Ago
Belgium	36.00	36.19
Canada	1.1438	1.1442
France	5.9545	5.9720
Germany	1.7526	1.7540
Italy	1311.00	1315.00
Japan	137.20	136.95
Mexico	3044.20	3041.40
Netherlands	1.9755	1.9772
South Korea	716.88	720.04
Switzerland	1.5333	1.5325
Taiwan	26.42	26.42
U.K.*	1.6731	1.6680

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (8/23/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.1%	-9.9%

skills. But, many of these jobs may be part-time as well, often to the chagrin of the employee. While the number of people voluntarily working part-time has contracted over the past year, the number who find themselves involuntarily working short hours has soared by over 20 percent.

Subpar Recovery Proceeds

The longer-run clouds hovering over the labor market will continue to extract a toll from the economy, sapping consumer confidence and suppressing income growth if nothing else. But, this price has been paid for quite some time, during most of which the economy was expanding. And, it seems to be doing so again, with numerous indicators signaling recovery. Initial claims for state jobless benefits are down more than 20 percent from their peak, retail sales have increased for three straight months and, during the May-July period, ran at an annual rate some five percent higher than during the immediately preceding three months, housing starts and auto sales are running well above their recession lows and industrial output has risen at a 7.4 percent annual rate since the economy bottomed. All in all, despite recent employment setbacks, the economy proceeds on the recovery track—subpar, to be sure, but not far from original expectations.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 8/21/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies			
Owned Outright & RPs	258.311	+ .468	+16.627
Loans to Depository Inst.	.757	+ .154	- .835
Float	.589	+ .154	- .462
Total Reserve Bank Credit	292.177	- 1.263	+10.272
Treasury Deposits with			
Federal Reserve Banks	5.138	- .890	- .363
Currency in Circulation	294.004	- .245	+23.159
Gov'ts held for Foreign Acct.			
by F.R. Banks (End-of-Week)	250.144	+ 1.252	+15.439
Member Bank Reserves:	8/21/91		
Total Reserves Held	50.946	+ .673	- 8.854
Excess (Deficiency)	1.055	+ .172	+ .151
Net Free Reserves	.457	+ .378	+ .639

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (8/12/91)	862.4	+ 8.5	+ 6.5
M2 (8/12/91)	3,384.8	- 0.2	+ 3.0
M3 (8/12/91)	4,144.9	- 2.4	+ 1.7
Domestic Nonfinancial Debt (1st Q'91)	10,634.2	- 2.8	+ 5.5

† Seasonally adjusted

* Seasonally adjusted annual rate
‡ Four-week moving average

New York Money Market

Offering Rates 8/23/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.38%	5.45%	5.48%
* Federal Agencies	5.60	5.55	5.90
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
*Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.75	5.85	5.75

‡ Finance Company Paper–Prime

5- 14 days	5.52%
15- 29 days	5.53
30- 59 days	5.51
60- 89 days	5.50
90-179 days	5.48
180-239 days	5.55
240-270 days	5.55

‡* Bankers' Acceptances

Sep.	5.60%
Oct.	5.60
Nov.	5.60
Dec.	5.55
Jan.	5.55
Feb.	5.55

‡ Industrial Paper–Prime

30- 89 days	5.50%
90-120 days	5.50

†Federal Funds Effective Rate 5.38%

‡ Discount basis *Subject to availability † Estimated

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'91	$ 5,620	$ 5,558	$ 5,443
Gross National Product (1982 Dollars)*	2nd Q'91	$ 4,128	$ 4,124	$ 4,155
Percent Change, Annual Rate	2nd Q'91	+ 0.4	- 2.8	+ 0.4
Change in Consumer Prices*	Jul. '91 n	3.4%	2.4%	4.8%
Change in MH Cost of Living Index*	Jul. '91 n	1.2%	6.0%	6.0%
Change in Producer Prices*	Jul. '91	2.4%	- 3.6%	3.6%
Civilian Employment (Thousands of Persons) †	Jul. '91	116,712	116,884	117,882
Unemployment as % of Civilian Labor Force †	Jul. '91	6.8%	7.0%	5.5%
Personal Income*	Jun. '91	$ 4,803	$ 4,780	$ 4,641
Leading Indicators Composite Index (1967=100) †	Jun. '91	143.6	142.9	146.2
Industrial Production Index (1977=100) †	Jul. '91 n	107.6	107.1r	110.4
Net Change in Consumer Installment Credit †	Jun. '91	$ 1.83	- $ 1.33	+ $ 0.77
U.S. Merchandise Trade Balance †	Jun. '91 n	$ 4.02	- $ 4.79r	- $ 6.33
Plant and Equipment Expenditures*	3rd Q'91	$ 553.5(a)	$ 544.2(a)	$ 534.9
Private Housing Starts (Thousands of Units)*	Jul. '91 n	1,070	1,032r	1,155
New Construction Expenditures*	Jun. '91	$ 420.3	$ 399.2	$ 450.4
Total Business Inventories †	Jun. '91 n	$ 808.9	$ 811.7r	$ 813.1r
Total Business Sales †	Jun. '91 n	$ 536.9	$ 535.9r	$ 544.6r

*Seasonally adjusted annual rate † Seasonally adjusted n Newly reported figure r-Revised a-Anticipated

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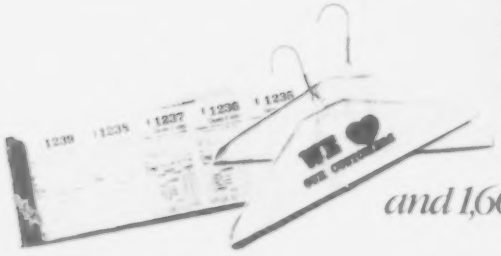
Only New York has 52 Tie Manufacturers,

279 Health Clubs,

987 Ad Agencies,



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